

A VALUE-BASED FRAMEWORK FOR INVENTORY MANAGEMENT

ABSTRACT OF THE DISCLOSURE

5 A value-based framework is used for managing inventory. This
framework allows firms to set risk and return targets for inventory related
capital investments and operational management. A set of possible inventory
investments is generated, and a value of possible inventory investments is then
computed. The value of possible inventory investments is computed by first
10 decomposing cash flows associated with the inventory investment into a
combination of cash flows that can be represented by a portfolio comprised of
long and short positions in an underlying asset. Then a valuation methodology
is used to compute the value of each long and short position in the portfolio.
The values of each long and short position in the portfolio is summed to
determine a value of the portfolio. The value of the inventory investment is set
15 equal to the value of the portfolio. An inventory investment with a best value
is selected.